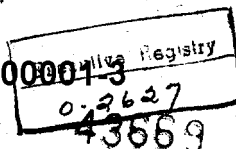


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CENTRAL INTELLIGENCE AGENCY



27 December 1948

INTELLIGENCE MEMORANDUM NO. 109

SUBJECT: Illegal East-West Traffic in Germany

Recent reports indicate the existence on an increasing scale of an illegal trade between the Bizone and the Soviet Zone of Germany, in circumvention of the counter-blockade established 24 July 1948 by the Western Powers in retaliation for the Soviet blockade of Berlin. The purpose of the counter-blockade has been to weaken Soviet bargaining power in Germany vis-a-vis the western Allies by cutting off the supply of certain special materials and parts necessary to Soviet Zone industry and upon which that industry is normally accustomed to rely.

The USSR, as was foreseen, has not been able to operate the Soviet Zone industrial machine at capacity without these necessary materials and parts (from other sources), and has thereby been seriously handicapped in maintaining industrial production in the Soviet Zone. Consequently, the USSR, through the German Economic Commission of the Soviet Zone (DWK) has sought by clandestine methods and through illegal channels to continue to obtain supplies from the Bizone. Moreover, a blackmarket in such supplies has developed without the open support of the USSR or the Bizone Military Governments, but presumably to the benefit of German business interests in both the Bizone and the Soviet Zone.

The extent of covert trade cannot at present be estimated, although it has been reported as amounting to 20 million Deutsche Marks (approximately \$6 million) since currency reform, from the Ruhr area alone, mostly iron and steel products. Because the most vital needs of Soviet Zone industry are for highly specialized products, the bulk of the covert trade is not necessarily great, but the cost is very high, and the profits correspondingly attractive. For example, the greatest handicap to increasing power production in the Soviet Zone is the critical shortage of boiler tubing, formerly obtained only from the Bizone and costing about five times as much as raw steel. Necessary amounts of this alloy pipe have been smuggled to a Leipzig power plant which supplies a substantial percentage of the power required by the largest industrial area in the Soviet Zone, including the only important ball-bearing plant in eastern Germany.

Document No. 001

NO CHANGE in Class. ☐☒ DECLASSIFIED

Class. CHANGED TO: TS S C

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INTELLIGENCE MEMORANDUM NO. 109 (continued)

The acquisition has enabled the Leipzig power plant to increase its capacity, which would otherwise have declined from lack of necessary replacements. Other items in short supply appearing in covert trade are radio tubes and ball-bearings.

The significance to the US of a continuation or expansion of this illegal trade is:

1. Benefit to the Soviet Zone economy which otherwise would suffer more rapid economic deterioration.
2. Diversion from the Bizone of essential materials required for the rehabilitation of its economy.
3. Lessening of the German contribution to general western European economic recovery under ECA.
4. Impairment of one of the chief bargaining weapons of the Western Powers in the Berlin dispute.
5. Encouraging revival of German nationalism by permitting German businessmen to preserve or foster by illegal means the pre-war pattern of internal German trade.